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INTERNATIONAL MOGUL MINES LIMITED

File

ANNUAL REPORT DECEMBER 31, 1980

Directors

M.P. Connell, Toronto, Ontario
Chairman of the Board of the Corporation and
Conwest Exploration Company Limited

C.C. Coolican, Toronto, Ontario
Executive Vice-President of the Corporation and
Conwest Exploration Company Limited

D.J. Hains, Toronto, Ontario
President, Lurgi Canada Limited

J.C. Lamacraft, Toronto, Ontario
President of the Corporation and Conwest Exploration
Company Limited

R.D.H. Thorburn, Toronto, Ontario
President, Venus Custom Products Limited

Officers

M.P. Connell, Chairman of the Board

J.C. Lamacraft, President and Chief Executive Officer

C.C. Coolican, Executive Vice-President

J.A. Kalman, Vice-President

S.L. Koroluk, Vice-President,
Production, Oil and Gas Division

J.T. McCoy, Vice-President,
Exploration, Oil and Gas Division

J.A. Patterson, Vice-President and Secretary

J.S. Adams, Treasurer

The Year at a Glance

	1980	1979
Net Income	\$12,114,000	\$ 8,115,000
Earnings Per Share	\$4.68	\$3.14
Dividends to Shareholders . . .	\$1,019,000	—
Per Share	\$.40	—
Working Capital	\$19,416,000	\$18,039,000
Per Share	\$7.62	\$6.84
Total Assets	\$49,976,000	\$36,969,000
Common Shareholders' Equity	\$32,028,000	\$20,625,000
Per Share	\$12.57	\$8.26

Auditors

Thorne Riddell, Toronto, Ontario

Counsel

Davies, Ward & Beck, Toronto, Ontario
McCarthy & McCarthy, Toronto, Ontario

Transfer Agent and Registrar

Guaranty Trust Company of Canada,
Toronto

Bankers

The Toronto-Dominion Bank,
Toronto, Ontario

Listing

The Toronto Stock Exchange

Head Office

85 Richmond Street West,
10th Floor,
Toronto, Ontario
M5H 2G1

Calgary Office

320, Selkirk House,
555 4th Avenue S.W.,
Calgary, Alberta

Annual Meeting

1:30 p.m.
June 25, 1981
Simcoe A Room,
The Board of Trade of Metropolitan Toronto,
3rd Floor,
Adelaide St. Entrance,
First Canadian Place,
Toronto, Ontario

DIRECTORS' REPORT

To the Shareholders
International Mogul Mines Limited.

Your directors are pleased to present your Company's Annual Report for 1980.

Financial

Consolidated income for the year amounted to \$12,114,000 or \$4.68 per common share as compared to \$8,115,000 or \$3.14 per common share in 1979. Book value of total assets increased to \$49,976,000 from \$36,969,000 in 1979. Working capital increased by \$1,377,000 to total \$19,416,000 at year-end. During 1980, the Company declared its first common share dividend since mid-1974; common share dividends totalling \$0.40 were paid.

Oil and Gas Interests

During 1980, the Company continued to expand its oil and gas exploration interests. The Canadian exploration budget for the Company's 50:50 joint venture with Conwest was approximately \$3,400,000 in 1980. The Canadian exploration budget has been increased to approximately \$6,000,000 for 1981. Conwest, through a wholly-owned U.S. subsidiary, recently has committed to a 3.125% working interest in a \$15,000,000 U.S. drilling program which includes 17 separate drilling prospects in Texas and Louisiana. Mogul and Conwest have agreed, subject to the consent of the operator, that Mogul will acquire 50% of Conwest's interest in the program.

During the year, a number of possible reserve acquisitions were reviewed and several evaluated in detail. One small acquisition was concluded and this reserve acquisition, together with the preliminary evaluation of the 1980 drilling results accounts for the approximately 10% increase in the Company's year-end oil and gas reserves.

The National Energy Program, introduced in the fall of 1980, is ostensibly favourable to Canadian owned companies and one of its stated intentions is to promote "Canadianization" of the oil and gas industry. Both Mogul and Conwest presently have Canadian ownership of in excess of 90% and, therefore, will benefit from the positive aspects of the National Energy Program. As well, your management believes that the need to fully develop Canada's energy resources will eventually lead to a resolution of the federal-provincial dispute over the revenue sharing and pricing provisions of the NEP. For these reasons, your Company continues to be committed to building significant oil and gas reserves through acquisition and exploration.

A full description of your Company's oil and gas operations is detailed elsewhere in this report.

Mineral Exploration

During 1980, the Company's grass-roots exploration exposure to new projects was minimal and its main activity was directed to ongoing projects commenced in previous years.

The current year's programs are outlined in the Mining Interests section of this report. The Company maintains its historical open-door policy as to consideration of mineral resource properties of merit.

Consolidated Canadian Faraday Limited

During the year, the Company increased its equity in Faraday from 28% to 31%. Faraday has a 49% direct interest in the Madawaska Mines Limited/Consolidated Canadian Faraday Limited Joint Venture which operates a uranium mine near Bancroft, Ontario, an 11% interest in a 60 well producing shallow gas field in Alberta, a 24% interest in Hydra Explorations Ltd. and a 38% interest in Prairie Potash Mines Limited. Faraday also has a substantial working capital position. The operations and assets of Faraday are set out more fully in the mining interests section of this report.

General

The strong earnings performance and asset growth during the past three years have strengthened the Company's asset base and its capacity to undertake new investments. In 1980, portfolio investments once again made a major contribution to the Company's earnings and are expected to continue to be a significant factor in earnings' performance. Expansion of the Company's oil and gas interests through reserve acquisitions and through increased exploration exposure will continue to be a high priority for 1981 and oil and gas operations should have a greater impact on earnings over the next several years.

Conwest recently announced a take-over bid for all Mogul shares not currently held by it. Conwest has offered to exchange 1.75 Class B common shares of Conwest for each common share of Mogul and 2 Class B common shares of Conwest for each Series A preference share of Mogul. Your directors have reviewed carefully the Offer and consider the exchange ratios to be favourable for Mogul shareholders. The Board have recommended acceptance of the Offer in a Directors' Circular dated May 13, 1981.

The Conwest Offering Circular states: "Management believes that by increasing Conwest's interest in International Mogul, the activities of both companies can be further integrated enhancing the opportunities for the growth and development of both companies and making possible investments which neither company would be capable of supporting on its own account. Management also believes that the financial strength which would result from this integration would make Conwest shares more attractive to investors, thus improving Conwest's access to the public equity markets. The integration of the assets and operations of the companies would also simplify corporate and tax planning and future debt financings."

Your Board concurs with this reasoning and believes that the offer represents an attractive opportunity for shareholders of the Company to diversify their investment and improve its liquidity.

On behalf of the Board

M. P. CONNELL,
Chairman.

J. C. LAMACRAFT,
President and Chief Executive Officer

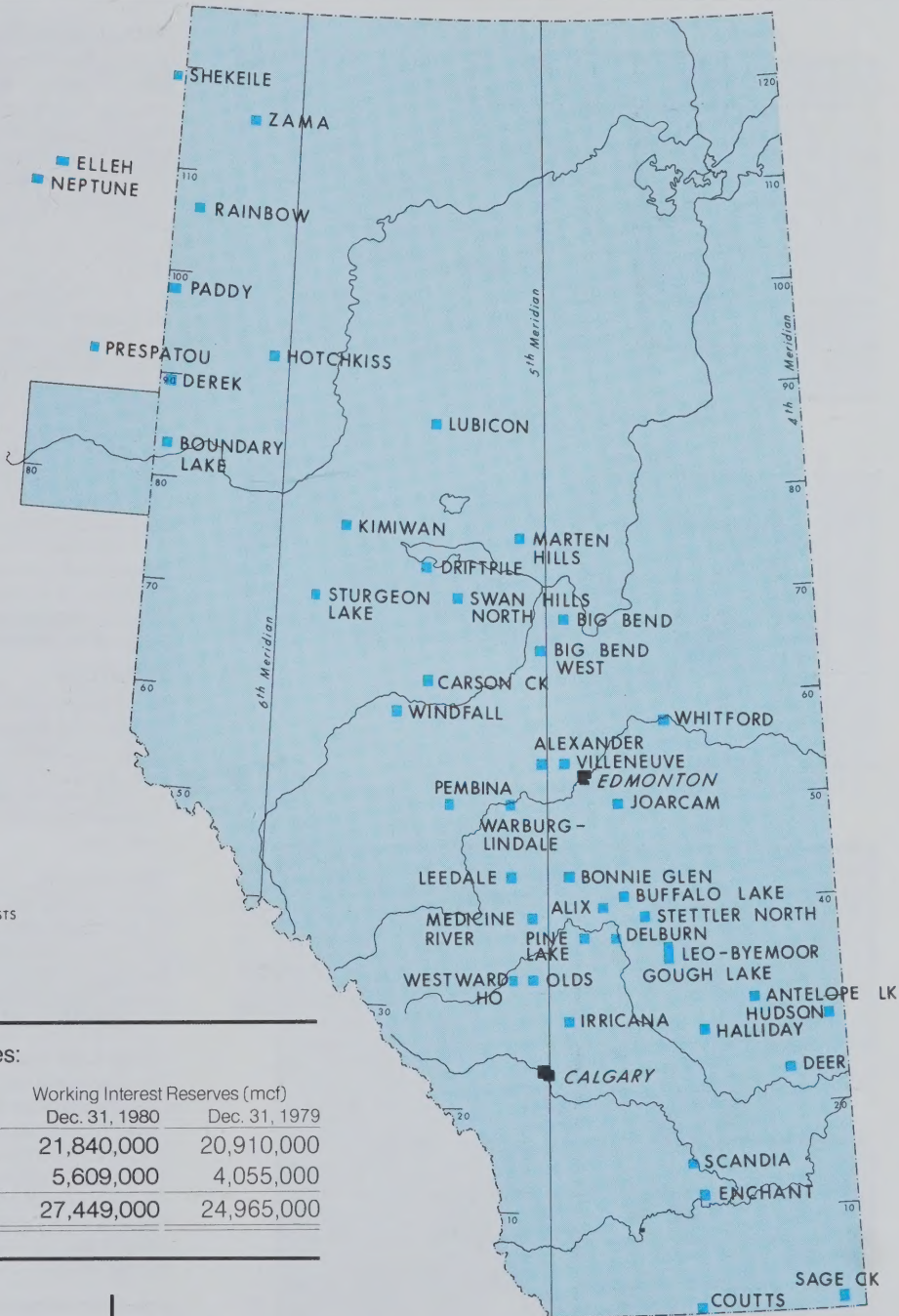
Toronto, Ontario
May, 11, 1981

OIL AND GAS INTERESTS

PRINCIPAL AREAS OF ACTIVITY

INTERNATIONAL MOGUL MINES LIMITED
ALBERTA - N.E. BRITISH COLUMBIA

■ AREAS IN WHICH MOGUL HOLDS
CROWN FREEHOLD OR OTHER LEASE INTERESTS



Summary of Proven and Probable Gas Reserves:

	Working Interest Reserves (mcf)	
	Dec. 31, 1980	Dec. 31, 1979
Proven reserves	21,840,000	20,910,000
Probable reserves	5,609,000	4,055,000
	<u>27,449,000</u>	<u>24,965,000</u>

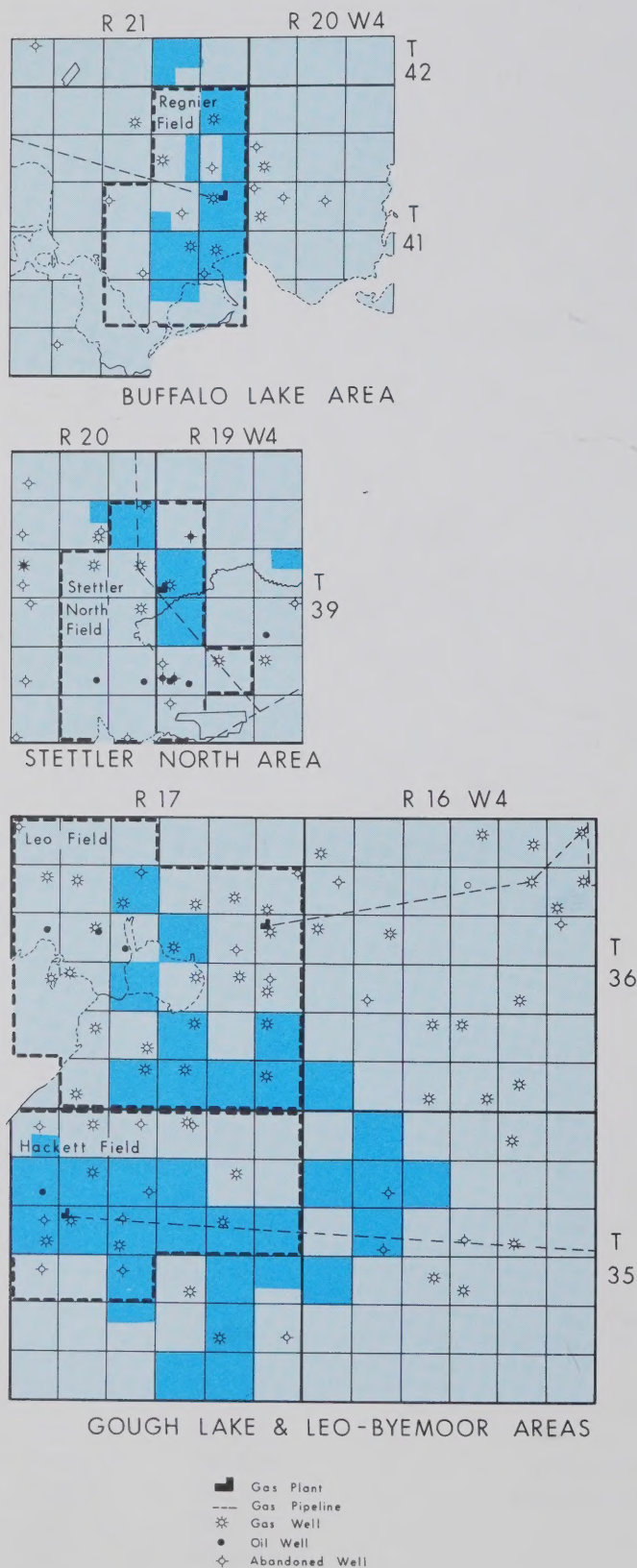
Forecast Net Cash Flow After Operating and Capital Expenditures and Royalties

	Undiscounted	Discounted At 15%
Proven reserves	\$67,033,000	\$17,908,000
Probable reserves	\$19,031,000	\$ 3,343,000
	<u>\$86,064,000</u>	<u>\$21,251,000</u>

Exploration and Development Expenditures

	1980	1979
Acquisition of Producing Assets	\$ 328,207	\$1,557,074
Land	853,487	139,363
Exploratory Drilling	816,467	275,998
Plant and Equipment	184,370	99,957
Other	239,495	201,145
	<u>\$2,422,026</u>	<u>\$2,273,537</u>

PRODUCTION AND RESERVES



Production and Reserves

Total working interest gas production for the year was 739 million cubic feet compared to 874 million cubic feet in 1979. The decrease in production is mainly attributable to the reduction of the Company's working interest in two producing gas wells at Leo-Byemoor as a result of conversion rights exercised by other parties upon payout of the wells. It is anticipated that present levels of gas production will be maintained or increased in 1981. Working interest oil production for the year was 3643 barrels compared to 2281 barrels in 1979. The majority of the Company's production comes from wells located in the Buffalo Lake, Gough Lake, Leo-Byemoor and Stettler North areas of Central Alberta.

Cash flow from oil and gas operations for the year was \$1,644,000 compared to \$1,359,000 in 1979.

Proven plus probable reserves at December 31, 1980 were 27.449 billion cubic feet (gas plus oil in gas equivalent units) compared to 24.965 billion cubic feet (gas plus oil in gas equivalent units) at December 31, 1979. The reserve increase is attributable to a producing property acquisition in the Wayne-Rosedale area, development drilling in the Leo-Byemoor area and exploratory drilling in the Alix, Beiseker, Bonnie Glen, Derek, Joarcam, Leedale and Thorsby area. The discounted present value (at 15%) of the net cash flows from these reserves has been estimated to be \$21.25 million.

The reserve and forecast future cash flow information is derived substantially from an independent consultant's report prepared for the Company as at December 31, 1981. Reserves have been assigned to twenty-one properties, of which eight are presently under contract and on production. These properties are all located in the Province of Alberta.

Buffalo Lake

The Company has an interest in 4,160 acres (783 net acres) in the Buffalo Lake area as well as an interest in three producing wells (0.69 net wells), one shut-in well (0.16 net wells) and the Buffalo Lake gas plant. The Company's working interest production from the area in 1980 was 181 million cubic feet and the Company's working interest proved plus probable reserves in the area at December 31, 1980 were 3.33 billion cubic feet.

Stettler North

The Company has an interest in 2,240 acres (993 net acres) in the Stettler North area as well as an interest in one producing well (0.43 net wells) and a gas plant. The Company's working interest production from the area in 1980 was 217 million cubic feet and the Company's working interest proved plus probable reserves in the area at December 31, 1980 were 1.48 billion cubic feet.

Gough Lake—Leo Byemoor

The Company has an interest in 21,280 acres (6,082 net acres) in the Gough Lake/Leo-Byemoor area as well as an interest in four producing wells (1.17 net wells), eleven shut-in wells (2.76 net wells) and two gas plants. The Company's working interest production from the area in 1980 was 1,288 barrels of oil and 250 million cubic feet of gas. The Company's working interest proved plus probable reserves in the area at December 31, 1980 were 22,000 barrels of oil and 12.31 billion cubic feet of gas. The Company participated in the drilling of two successful wells in the area in 1980.

Summary of Operating Results

	1980	1979
Oil and gas revenues, net of royalties	\$ 1,489,000	\$ 1,396,000
Deferred income under take or pay provision of gas contracts	335,000	194,000
	1,824,000	1,590,000
Operating expenses	180,000	231,000
Cash flow from operations	\$ 1,644,000	\$ 1,359,000

OIL AND GAS EXPLORATION

During 1980 the Company continued to expand its oil and gas exploration activity. Exploration staff was hired with the objective of increasing the Company's exploration activity through land acquisitions and exploratory drilling.

At year end, the Company's land inventory had increased by 100% from year-end 1979 to total 40,818 net acres. These lands have lease terms ranging up to nine years and provide the Company with a prospect inventory and representation in a variety of areas where industry is currently active. The Company plans to aggressively increase its land holdings during 1981 through the farm-in route as well as bidding at Crown land sales.

Drilling activity increased during 1980 by 110%. The Company participated in the drilling of 32 wells in Alberta, British Columbia, Saskatchewan and Manitoba. From this program, one well was completed as an oil well, 16 as gas wells and 15 wells were abandoned, for a success ratio of 53%. The Company's exploration program was primarily directed towards Alberta. Exploration drilling will increase during 1981 as the Company continues to develop and drill prospects on its own acreage as well as participate with other companies on joint venture operations. Exploration expenditures will be directed towards projects which have good reserve potential, a minimum of sales delay and represent an excellent return on investment.

Additional staff will be added in 1981 to provide the technical support needed to direct an expanding exploration program.

Leedale

During 1980 the Company participated in the drilling of a successful multi-zone gaswell PanCon et al Leedale 2-16-43-4 W5M in the Leedale area of Alberta. This well flowed gas to surface from the Upper Mannville sands, Basal Mannville sands and the Pekisko carbonates. The well is located on a 1280 acre lease in which the Company holds a 3.75% working interest. The undrilled section immediately north of the well location appears, by subsurface control, to have equal potential to the productive section. These lands are located in close proximity to gas plants and pipeline facilities. The well is currently shut-in waiting on a market for the gas.

Derek

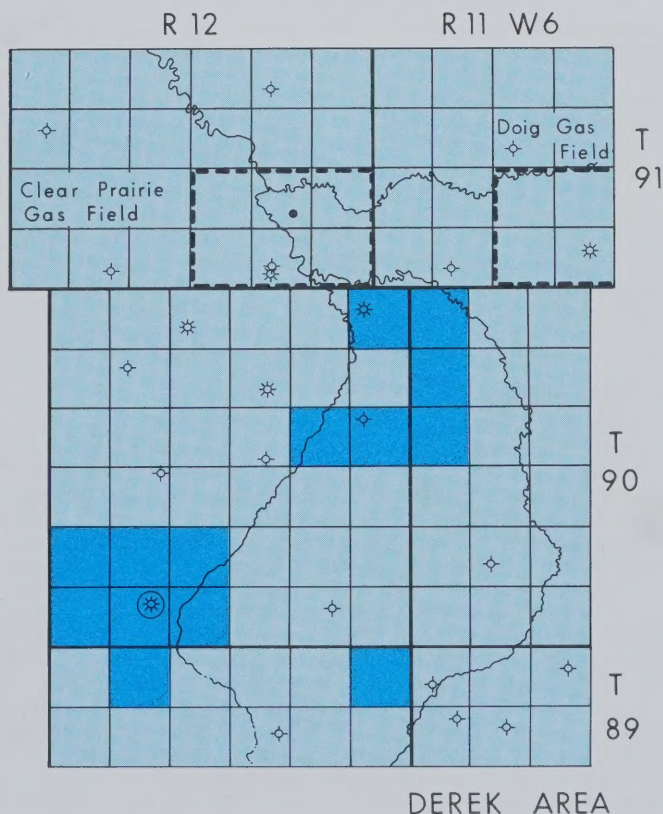
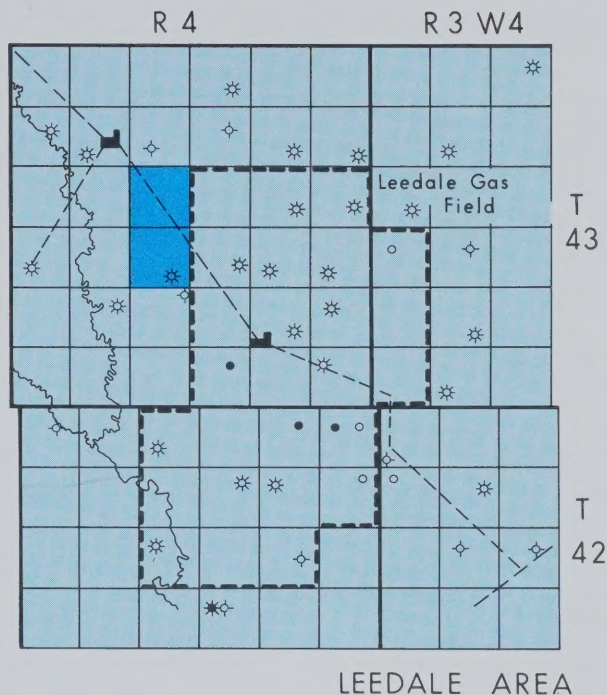
The Company holds working interests varying from 6.25% (after payout) to 12.5% in 10,240 gross acres in the Derek area of northwestern Alberta. During 1980 the Company participated in the drilling of the dual zone gaswell, Northstar Brenda Derek 10-5-90-12 W6M. The well is productive in the Cretaceous Gething sands and the Jurassic Nordegg sands. The well was drilled on lands farmed out by Sulpetro. Additional lands were subsequently acquired at Crown land sales. The well is currently shut-in waiting for gas marketing conditions to improve.

Land Holdings at Dec. 31, 1980

	1980	1979
Gross Acres	267,100	74,219
Net Acres	40,818	20,524

Drilling Activity

Wells	1980	1979
Oil	1	1
Gas	16	8
Dry	15	6
Total	32	15



MINING INTERESTS

Consolidated Canadian Faraday Limited

International Mogul Mines Limited holds a 31.1% controlling interest in Consolidated Canadian Faraday Limited. Faraday's net income for the year amounted to \$2,087,000 as compared to \$2,379,000 in 1979. Net income was adversely affected by a sharp decrease in Faraday's share of income from the Madawaska uranium operation. This decrease in net income was substantially offset by increased investment gains and by the sale of Faraday's 51-unit apartment complex in Ft. Myers, Florida. The Madawaska operation suffered from reduced mine operating margins and to a substantially increased depreciation charge, both of which are directly linked to the steep decline in the U_3O_8 price which has taken place over the course of the year.

During 1980, Faraday converted its 49% share interest in Madawaska Mines Limited into a 49% direct interest in the Madawaska uranium mine-mill near Bancroft, Ontario. The mine-mill operated according to budget last year; from 397,065 tons milled during the year, 610,792 lbs. of U_3O_8 was produced. The average net price received during the year from foreign and domestic sales decreased from \$43.57 per lb. in 1979 to \$40.53 per lb. in 1980. The effect of this price decrease was to reduce Faraday's share of the Joint Venture's operating profits in 1980 to \$871,000 from \$3,842,000 in 1979. The sharp drop in prices received for Faraday's U_3O_8 production was a reflection of the general decline in uranium prices worldwide. Prices in 1981 have fallen even lower to the point where it is estimated that "about half of all U.S. producers could not economically justify selling at today's prices, even on a marginal basis". Unfortunately, the short term outlook for prices is still uncertain, due to stagnant demand for U_3O_8 , built-in overcapacity of U_3O_8 productive facilities, and the outlook for ample uranium resources.

In the face of these uncertainties, the Madawaska Mines Limited-Consolidated Canadian Faraday joint venture and AGIP have negotiated a firm price of \$32.75 for 1981 and 1982 deliveries from the Madawaska Mine. Although the price is significantly lower than that obtained by Madawaska during the past two years, this fixed price should allow the joint venture to generate a small positive cash flow from operations during the two-year period provided that certain cost and grade control objectives that are currently considered attainable are in fact achieved. Most important, however, is that the renegotiated price ensures the continued operation and development of the mine throughout what hopefully will be the worst part of a difficult marketing period.

Despite the negative outlook for its uranium assets, Faraday is in a healthy financial position with working capital of \$8,871,000 at year-end. It also continues to hold its 11.017% interest in a shallow gas field in Alberta, its controlling interest in Hydra Explorations, which company has two low grade gold properties and its 38.6% interest in Prairie Potash Limited, which company has important Manitoba potash holdings. The Company will continue to focus on new projects and investments in the Canadian resource sector to expand and diversify its earning's base.

Mineral Exploration

Main exploratory efforts were through the Conwest managed general exploration program, in which your Company participated to the extent of 18%. Exploration of three of the Conwest Group's base metal properties in New Brunswick was undertaken by Brunswick Mining and Smelting Corp. Ltd. No important discoveries were made and exploration activities by Brunswick are continuing. Riocanex commenced a comprehensive program on the Ontario Lac Des Mille Lacs property including diamond drilling. At last report, four holes totalling 2,107 feet of drilling had been completed and results were significant enough to continue the program. In both of the above farmout projects, Conwest and its partners in the general exploration program, may elect to resume as a participant or take a lesser carried interest once certain expenditures have been made.

The Company continues to participate to the extent of 35% in the Conwest Group's 12.5% equity and 3% gross production royalty interest in the Conwest Canadian Uranium Exploration Joint Venture, which includes 291,000 acres on the edge of the Athabasca Basin in Saskatchewan and a further 106,500 acres in Quebec. Eldorado Nuclear Limited, as manager, continued to explore the Saskatchewan and Quebec lands on behalf of the Joint Venture. Expenditures in Saskatchewan totalled \$1,200,000 and work consisted of various geological, geophysical and geochemical surveys and diamond drilling.

Exploration work for 1981 is budgeted at \$420,000. Denison Mines Limited continued exploration of lands farmed out from the Joint Venture and limited work is planned for 1981. Saskatchewan Mining Development Corporation is a one-third participant in the Saskatchewan lands. In Quebec, various surveys and 1,024 metres of diamond drilling in 18 holes were completed. Several new boulder trains and a second uranium occurrence were discovered. Limited diamond drilling of the initial uranium find failed to produce favourable results. An expanded program is formulated for 1981 and budgeted at \$1,400,000.

The Company continues to maintain its interest in mineral deposits which have potential for future production. These include the Lake Ainslie barite-fluorite deposits in the Lake Ainslie area of Cape Breton Island, Nova Scotia and the Langmuir Township, Ontario nickel deposit. The former property contains several deposits with drill-indicated reserves aggregating 5.0 million tons of mineable material grading 34% barite and 17% fluorite with the possibility of expanding reserves. Mogul has recently entered into discussions with Armco Mineral Exploration Company Limited with a view to further investigation and evaluation of the feasibility of exploiting these deposits. Mining properties which were former producers are also being maintained and these include the Dyno and Lorado uranium properties at Bancroft, Ontario and Beaverlodge, Saskatchewan, respectively and the Coldstream copper property in the Thunder Bay area of Ontario.

Thorncrest Explorations Limited

Mogul holds 28.9% of Thorncrest. Thorncrest's only asset is a 14 claim property located in Township 149, Elliott Lake area of Ontario. The property covers the down-dip extension of the Stanleigh uranium bearing conglomerate formation. The Stanleigh Mine is slated for production in mid-1983 by Rio Algom Limited. A Rio Algom affiliate leased the Thorncrest property for a maximum term of 75 years for \$5,000 per annum, subject to a sliding scale royalty if the property is put into production.

New Mount Costigan Mines Limited

Mogul holds 33.8% of New Mount Costigan. New Mount Costigan retains a \$0.50 per ton royalty on production from a portion of the Lake Ainslie barite-fluorite property of International Mogul. New Mount Costigan owns a 10% interest in Comstaff Proprietary Limited which holds numerous properties in northwestern Tasmania, Australia, prospective for base metal and tin mineralization. These properties have been subject to exploration since 1964 and exploration is presently being financed by Preussag Australia Proprietary Limited and Australia Anglo American Limited. A base metal-tin mineralized zone has been identified in the Renison area of the Comstaff lands, but it is too early in the overall program to assess the economic importance of the discovery.

Hydra Explorations Limited

Through Faraday's 23.6% interest in Hydra, Mogul holds an indirect interest in two gold properties. One is known as the Porcupine Peninsular property in the Timmins Area, which is leased to Pamour Porcupine Mines Limited for a production royalty per ton of ore removed from the property at the rate of \$0.0027 for each \$1 of gold received and reverts to an 18% net profits interest after Pamour's capital payback. The other property, held through 50% owned Johnsbys Mines Limited, is a large tonnage deposit averaging 0.055 oz. gold per ton, located in the Indin Lake area north of Yellowknife, N.W.T. The Timmins property has been inactive for the past two years. The Indin Lake property has been inactive for several years. Much higher gold prices than now prevail are required to make these economically attractive.

Prairie Potash Mines Ltd.

Through Faraday's 38.6% interest in Prairie Potash, Mogul holds an indirect interest in 16,000 acres of freehold potash leases in the Province of Manitoba. Negotiations are in progress to farm out these lands to International Minerals and Chemicals Corporation (Canada) Limited. The negotiations have been conducted on the basis that Prairie Potash would receive reimbursement of its costs to date and retain an overriding royalty on production. IMC Canada would undertake to carry out a drilling and feasibility program to examine the economics of a major potash mine on the Manitoba lands.

CONSOLIDATED BALANCE SHEET-December 31, 1980

ASSETS	1980	1979
Current Assets		
Cash, term deposits and commercial paper (note 4)	\$20,666,000	\$17,830,000
Accounts receivable	3,102,000	1,424,000
	<u>23,768,000</u>	<u>19,254,000</u>
Investments, quoted market value \$18,227,000 (1979, \$15,087,000) (note 2)	17,339,000	10,986,000
Oil and Gas Interests (note 3)	8,759,000	6,692,000
Mineral Exploration Interests	1,000	1,000
Other	109,000	36,000
	<u>\$49,976,000</u>	<u>\$36,969,000</u>
LIABILITIES		
Current Liabilities		
Dividends payable	\$ 564,000	\$ 77,000
Accounts payable and accrued liabilities	3,415,000	1,138,000
Income taxes payable	373,000	
	<u>4,352,000</u>	<u>1,215,000</u>
Interest of Minority Shareholders (note 4)	<u>10,000,000</u>	<u>10,000,000</u>
SHAREHOLDERS' EQUITY		
Capital Stock (note 5)	14,321,000	16,288,000
Contributed Surplus	2,674,000	2,288,000
Retained Earnings	18,629,000	8,026,000
	<u>35,624,000</u>	<u>26,602,000</u>
Cost of Common Shares Acquired (note 5).		848,000
	<u>35,624,000</u>	<u>25,754,000</u>
	<u>\$49,976,000</u>	<u>\$36,969,000</u>

Approved by the Board

M.P. Connell, Director
J.C. Lamacraft, Director

CONSOLIDATED STATEMENT OF INCOME Year ended December 31, 1980

	1980	1979
Revenue		
Interest and dividends	\$ 3,176,000	\$ 2,254,000
Oil and gas production	1,489,000	1,396,000
Gain on investments	10,751,000	2,978,000
Gain on sale of mining interests	100,000	3,669,000
Royalty income		329,000
	<u>15,516,000</u>	<u>10,626,000</u>
Expenses		
Administrative	1,030,000	684,000
Mineral exploration	122,000	231,000
Oil and gas production	180,000	231,000
Corporate	113,000	74,000
Depletion, amortization and depreciation	361,000	395,000
	<u>1,806,000</u>	<u>1,615,000</u>
Income before undernoted items	13,710,000	9,011,000
Share of loss of companies accounted for on the equity basis (note 6)	365,000	125,000
	<u>13,345,000</u>	<u>8,886,000</u>
Income before income taxes and minority interest	13,345,000	8,886,000
Income taxes	373,000	
	<u>12,972,000</u>	<u>8,886,000</u>
Interest of minority shareholders in income of subsidiaries	858,000	771,000
	<u>12,114,000</u>	<u>\$ 8,115,000</u>
Net income for the year	<u>\$12,114,000</u>	<u>\$ 8,115,000</u>
Earnings per share (note 5)	\$4.68	\$3.14

CONSOLIDATED STATEMENT OF RETAINED EARNINGS Year ended December 31, 1980

	1980	1979
Retained earnings at beginning of year	\$ 8,026,000	\$ 248,000
Net income for the year	12,114,000	8,115,000
	<u>20,140,000</u>	<u>8,363,000</u>
Dividends		
Preference shares	239,000	337,000
Common shares	1,019,000	
Excess of cost of common shares cancelled over related paid-up capital	253,000	
	<u>1,511,000</u>	<u>337,000</u>
Retained earnings at end of year	<u>\$18,629,000</u>	<u>\$ 8,026,000</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year ended December 31, 1980

	1980	1979
Contributed surplus at beginning of year	\$ 2,288,000	\$ 2,092,000
Contributed surplus arising from the purchase of preference shares for cancellation	386,000	196,000
Contributed surplus at end of year	<u>\$ 2,674,000</u>	<u>\$ 2,288,000</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended December 31, 1980

	1980	1979
Working capital derived from		
Operations	\$ 2,846,000	\$ 2,617,000
Disposal of investments and reduction in advances	30,853,000	8,781,000
Disposal of mining interests	100,000	6,286,000
Proceeds on disposal of oil and gas interests		346,000
Issue of common shares	158,000	86,000
	<u>33,957,000</u>	<u>18,116,000</u>
Working capital applied to		
Investments	26,820,000	10,732,000
Oil and gas interests	2,420,000	2,670,000
Preference share dividends	239,000	337,000
Common share dividends	1,019,000	
Preference share dividends of a subsidiary	858,000	771,000
Cost of preference shares purchased for cancellation	1,144,000	460,000
Other	80,000	
	<u>32,580,000</u>	<u>14,970,000</u>
Increase in working capital	1,377,000	3,146,000
Working capital at beginning of year	18,039,000	14,893,000
Working capital at end of year	<u>\$19,416,000</u>	<u>\$18,039,000</u>

AUDITORS' REPORT

To the Shareholders of
INTERNATIONAL MOGUL MINES LIMITED

We have examined the consolidated balance sheet of International Mogul Mines Limited as at December 31, 1980 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1980

1. Summary of Significant Accounting Policies

(a) Long-term Inter-corporate Investments

(i) Consolidated subsidiaries

The consolidated statements include the accounts of the Corporation and its subsidiaries, the principal ones being:

	Mogul equity in common shares
Canadian Vendbar Industries Limited	100%
I.M.M. Ventures Limited	100%
International Mogul Mines (Alberta) Limited	100%

(ii) Companies subject to significant influence

The Corporation's investment in companies in which it has significant influence is accounted for on the basis of cost plus the Corporation's net equity in undistributed earnings in such companies since the date significant influence was acquired. The companies accounted for on the equity basis are as follows:

	Mogul equity in common shares
Consolidated Canadian Faraday Limited	31%
Thorncrest Explorations Limited	29%
New Mount Costigan Mines Limited	34%

(iii) Other

Other long-term investments are carried at cost or at cost less amounts written off to reflect a decline in value which is other than temporary.

Because of the number of shares held in certain companies, the quoted market values are not necessarily indicative of the value of such investments, which may be more or less than indicated by market quotations.

(b) Oil and Gas Interests

The Corporation follows the full cost method of accounting for oil and gas interests whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of both productive and unproductive drilling. Proceeds received on disposal of properties are credited against such costs.

Depletion of property interests and deferred costs and depreciation of production and other equipment are provided using the composite unit of production method based on total proven reserves of oil and gas.

(c) Mineral Exploration Interests

Direct exploration expenditures and the cost of acquisition of mineral exploration interests are charged to income in the year incurred.

(d) Mineral Resource Interests

The cost of acquisition of mineral interests which contain economic mineral reserves and the cost incurred on mineral exploration interests subsequent to the determination that such interests contain economic mineral reserves are deemed to be mineral resource interests. These interests, together with development expenditures thereon, are deferred and carried as an asset to be amortized against future production. Upon disposal or abandonment, the net gain or loss related to such asset is reflected in the statement of income.

(e) Earnings per Share

Earnings per share are calculated using the weighted average number of common shares outstanding during the year net of common shares held by the Corporation, which shares were cancelled during 1980. Dividend requirements of first preference shares are deducted for purposes of these calculations.

2. Investments	1980	1979
Companies subject to significant influence		
With quoted market value (quoted market value \$4,206,000; 1979, \$3,282,000)	\$ 3,873,000	\$3,836,000
Without quoted market value and advances	63,000	128,000
	<u>3,936,000</u>	<u>3,964,000</u>

Other investments

With quoted market value (quoted market value \$14,021,000; 1979, \$11,805,000) (note 4)	12,890,000	6,792,000
Without quoted market value and advances	513,000	230,000
	<u>13,403,000</u>	<u>7,022,000</u>
	<u>\$17,339,000</u>	<u>\$10,986,000</u>

3. Oil and Gas Interests

	1980		1979	
	Property interests and deferred costs	Production and other equipment	Total	Total
Balance at beginning of year	\$6,540,000	\$ 877,000	\$7,417,000	\$5,093,000
Add:				
Acquisitions in year	328,000		328,000	1,855,000
Current year's expenditures	1,908,000	184,000	2,092,000	815,000
	<u>8,776,000</u>	<u>1,061,000</u>	<u>9,837,000</u>	<u>7,763,000</u>
Deduct:				
Accumulated depletion and depreciation	953,000	125,000	1,078,000	725,000
Proceeds on disposition				346,000
	<u>953,000</u>	<u>125,000</u>	<u>1,078,000</u>	<u>1,071,000</u>
Balance at end of year	<u>\$7,823,000</u>	<u>\$ 936,000</u>	<u>\$8,759,000</u>	<u>\$6,692,000</u>

4. Minority Interest

During 1978 I. M. M. Ventures Limited, a subsidiary of the Corporation, issued \$10,000,000 of cumulative redeemable non-voting first preference shares. These shares carried an annual dividend rate from the date of issue to June 30, 1980 of an amount equivalent to 1½% plus ½ the prime rate of a Canadian chartered bank. From July 1, 1980 to redemption these shares carry an annual dividend rate equivalent to 1½% plus ½ the prime rate.

These shares must be redeemed by Ventures on June 30, 1983, but may be redeemed, at the option of Ventures, at any time prior thereto. All redemptions of these shares are at par value plus all accrued and unpaid dividends.

The provisions of these shares include a number of restrictions and covenants relating to the operations of Ventures. Contravention of any of these provisions provides the holder of these first preference shares with the right to require their immediate redemption by Ventures.

The Corporation has agreed with the holder that, under certain circumstances, it will purchase the first preference shares from the holder and has secured this obligation by a pledge of certain of its commercial paper and investments with a quoted market value having a value of approximately \$10,000,000.

5. Capital Stock

(a) Authorized and Issued

Authorized

879,800 First preference shares, par value \$20 each

3,859,271 Common shares, without par value

	Number of shares	Amount
Issued		
6% Cumulative redeemable convertible first preference shares, Series A		
Balance at beginning of year . . .	256,450	\$ 5,129,000
Converted into 166 common shares	(150)	(3,000)
Purchased for cancellation	(76,500)	(1,530,000)
Balance at end of year	179,800	3,596,000
Common shares		
Balance at beginning of year . . .	2,638,277	11,159,000
Issued on conversion of 150 Series A shares	166	3,000
Issued on exercise of employee stock options	50,000	158,000
Cancelled in year	(141,200)	(595,000)
Balance at end of year	2,547,243	10,725,000
		<u>\$14,321,000</u>

During the year the Corporation cancelled the 141,200 common shares which it had purchased in prior years at a cost of \$848,000.

To April 1, 1983 each Series A share is convertible into 1 1/2 common shares of the Corporation.

Pursuant to the terms of issue of the Series A shares, the Corporation has undertaken, in each of the twelve month periods from April 1, 1980, to make all reasonable efforts to purchase for cancellation in the open market that number of shares which may be purchased out of the lesser of \$300,000 or 10% of the consolidated net earnings available for dividends (as defined) for the immediately preceding fiscal year after deducting dividends paid in that year on the Series A shares. After taking into account purchases to April 27, 1981 the Corporation has satisfied the maximum amount of this undertaking for the periods ending April 1, 1981, 1982, 1983 and 1984.

(b) Employee Stock Options

Details of the common share options authorized under the employee incentive stock option plan are as follows:

Year of grant	Price per common share	Outstanding at beginning of year	Exercised during year	Outstanding at year end	Expiry date
1977	\$2.89	45,000	45,000	Nil	
1979	\$5.51	10,000	5,000	5,000	Sept 24, 1984

Subsequent to December 31, 1980 the outstanding option on 5,000 shares at \$5.51 per share was exercised.

(c) Fully Diluted Earnings per Share

Fully diluted earnings per share, calculated as though all of the outstanding Series A shares and the employee stock options had been converted or exercised as at the beginning of the year would be \$4.42 (1979, \$2.89) per share.

6. Share of Loss of Companies Accounted for on the Equity Basis

	1980	1979
Share of income of companies subject to significant influence . . .	\$536,000	\$ 62,000
Less amortization of excess of cost of investment over equity in net book value of underlying assets of such companies	901,000	187,000
	<u>\$365,000</u>	<u>\$125,000</u>

7. Income Taxes

At December 31, 1980 resource assets are carried at \$8,760,000 (1979, \$6,693,000) in the consolidated balance sheet, of which \$4,785,000 (1979, \$2,572,000) is deductible for income tax purposes.

In addition, the Corporation has other deductions available to reduce or eliminate income taxes that would otherwise be recorded as a charge against income of future years. Details of these deductions, the tax effect of which has not been reflected in the consolidated financial statements, are as follows:

Resource expenditures and capital cost allowances (available indefinitely)		\$5,212,000
Non-capital losses which expire as follows:		
1981	\$366,000	
1982	540,000	
1983	258,000	1,164,000
Balance, December 31, 1980 . . .		<u>\$6,376,000</u>

These deductions are available to reduce or eliminate income taxes otherwise payable in future years. Since reductions or eliminations of this nature are recurring on a regular basis over a number of years and are typical of the Corporation's normal business activities, they are not considered to be extraordinary in nature and are reflected as a reduction of current income taxes when realized. Approximately \$4,443,000 (1979, \$6,945,000) of deductions of this type were applied to eliminate income taxes that would otherwise have been recorded as a charge against income of the current year.

8. Related Party Transactions

Conwest Exploration Company Limited owns 50.3% of the Corporation and consequently many of the companies within the Conwest Group of companies are related parties. As part of normal business operations the Corporation makes extensive use of Conwest's management and technical services. The Corporation's share of the cost of such services amounted to \$788,000 in 1980.

The Corporation also participates in the exploration of certain hydrocarbon and non-hydrocarbon exploration prospects with members of the Conwest Group, at costs which are proportionate to its interest, as follows:

	Corporation's interest	Costs incurred in 1980
Exploration of hydrocarbon prospects	50%	\$ 926,000
Conwest Uranium Exploration Joint Venture	35%	95,000
Other non-hydrocarbon exploration	10%	3,000
		<u>\$1,024,000</u>

